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## NEWS UPDATE - Friday, February 02, 2001

#### **SUMMARY**

#### In the News...

- <u>TAXES:</u> Under the teaser "Bush Tax Cuts Send Corporate Lobbyists Into Feeding Frenzy," the Wall Street Journal reports corporations are foaming at the mouth over Bush's tax plan. As the story says, "the bill goes to Congress, and the corporate lobbyists go to work."
- <u>TAXES:</u> National Journal reports that corporate interests forsee a feeding frenzy from the Bush Administration tax plan. The article says a recent meeting of "50 of the most influential lobbyists" about Bush's tax plan resembled an aquarium full of hungry piranhas, with them plotting \$850 billion in corporate tax breaks. "If the comparison [to the piranhas] implied is unfair, it is more unfair to the pirhanas they eat each other only by accident," says the story.
- <u>TRADE:</u> The Wall Street Journal reports that because of a reinvigorated labor movement and Progressive force in Congress, Big Business cannot simply ram through trade agreements that do not address labor and environmental standards.
- <u>POLITICS:</u> The American Prospect explores how the Democratic Leadership Council has no discernible ideology and how the title "New Democrat" seems to now mean absolutely nothing in terms of political positions. As the article notes, "What at first glance looks like a shift to the political center may in fact be nothing more than a clever branding scheme."
- <u>CAMPAIGN FINANCE:</u> The Associated Press reports on a new study by the Annenberg Public Policy Center shows that special interests spent \$250 million in the nation's largest media markets last year to influence elections.

### From the Editorial Pages...

- <u>THE NEW YORK TIMES:</u> Professor Richard Freeman and economist Eileen Applebaum write that a tax rebate of a set dollar figure to all citizens is the best across-the-board tax plan.
- <u>SYNDICATED COLUMNIST:</u> E.J. Dionne says that the upcoming tax debate will prove whether the Democrats truly represent their working class roots, or whether they have completely sold out to corporate interests.
- <u>SYNDICATED COLUMNIST:</u> Michael Kinsley says that despite Bush's plan to skew most tax relief to the wealthiest Americans, the best way to stimulate the economy is to cut the payroll tax one of the most regressive taxes in America.

## Quotes of the Day...

"When all the throat cutting starts within the business community, the bottom line is, who will get the pot of gold?"

- Rhett Dawson, Pres. of the Information Technology Industry Council, on corporate lobbying on the Bush tax plan

"Why is an administration that claims to feel so much compassion for the poor preparing to use so much of the surplus to shower money on the wealthiest Americans?"

- Columnist E.J. Dionne, questioning why Bush is pushing a tax plan that skews benefits to the wealthy

## In the News on February 2, 2001

## **Bush's \$1.6 Trillion Tax Plan Could Spur Bidding War Among Corporate Lobbyists**

Wall Street Journal

WASHINGTON -- Next week, George W. Bush will unveil a \$1.6 trillion tax plan that provides generous, across-the-board tax cuts for individuals but little direct relief for corporations.

Then the bill goes to Congress, and the corporate lobbyists go to work. For them, the time couldn't be more ripe, with a business-friendly administration in place, the economy slowing, a flood of corporate cash to last year's campaigns -- and a growing federal surplus to be parceled out.

"When you put \$1 trillion on the table, companies are going to come out of the woodwork," says Buck Chapoton, a prominent Washington tax attorney.

Yet the lobbyists face unusual hurdles as well. Mr. Bush, to date at least, has resisted expanding his tax cuts to satisfy big business. He finds some support for that reluctance among those who fear a repeat of the deficits that followed such moves by former President Reagan. Also hurting big business is its inability so far to form a united front in its lobbying campaign.

#### A Share of the Goodies

None of those issues has blunted the lobbyists' appetite for a share of this year's tax goodies. Already, the early stirrings of a special-interest feeding frenzy can be heard in Washington.

A new coalition called the Cost Recovery Action Group, with members ranging from New Economy leader Intel Corp. to Old Economy icon USX Corp., has launched an effort to win faster tax write-offs for computers and business equipment.

The National Federation of Independent Business, longtime advocate for small and midsize businesses, has already persuaded Missouri Republican Sen. Kit Bond to introduce the "Small Business Works Act," a laundry list of breaks such as increasing deductibility for self-employed health insurance and business meals.

And the Electronic Industries Alliance is gearing up for meetings with every freshman legislator and key committee chairmen on tax credits to expand broadband Internet networks. It has invited three members of the Senate Finance Committee to attend a conference on the topic next month in Palm Beach, Fla.

Mark Bloomfield, who has been a relentless advocate of corporate tax breaks in Washington for more than two decades, worries about the danger of too many conflicting agendas. He heads a group called the American Council for Capital Formation that is trying to organize an alliance including chemical manufacturers, paper makers and securities firms. The group hopes to lobby for broad-based cuts in the corporate tax.

"If the business community is balkanized, it's neutered," warns Mr. Bloomfield.

The steadily growing ranks of business lobbyists won't say whether they want their tax cuts to be added to those in Mr. Bush's plan, or substituted for them. But they are determined, one way or another, to get a bigger share.

"Maybe only a tenth" of the Bush plan "is targeted to the business community," estimates Dorothy Coleman, vice president of tax policy for the National Association of Manufacturers, which is assembling its own coalition of business groups seeking tax relief. "We think that needs to be at least a quarter to a third," she adds. Fear of Deficits

The big fear among economists and fiscal disciplinarians is that, just as the 1981 tax act helped usher in an era of budget deficits, an ever-swelling 2001 cut could wipe out the current surpluses.

Mr. Chapoton was the Treasury's top tax official back in 1981, when Ronald Reagan first took office. Like President Bush, Mr. Reagan ran on a platform calling primarily for across-the-board tax cuts for individuals. But Charls E. Walker, founder of Mr. Bloomfield's American Council for Capital Formation, persuaded him to add in generous depreciation allowances for business. When the Reagan White House later considered cutting back the allowances, backers of them orchestrated an event that became known among Reagan officials and tax lobbyists as "Learjet Weekend," with corporate chieftains flying in from across the country to preserve their piece of the tax-cut pie.

"The business community has a lot of clout and they will be the engine that moves this bill" proposed by Mr. Bush, says Bob Matsui, a California Democrat and veteran of the House Ways and Means Committee. The result could be a bidding war, as each of the competing interest groups tries to get its own break and their congressional allies try to outdo each other to please their constituencies.

"It's a parade of people, calling, coming over, saying we need more -- more spending, more tax cuts," says Democratic North Dakota Sen. Kent Conrad. "It's as though people have completely forgotten what got us in the deficit in the first place."

Mr. Matsui says the total cost of the bill over 10 years, in terms of lost tax revenue and higher interest costs because of the increase in federal debt, could be as much as \$2.7 trillion.

So far, Mr. Bush has resisted corporate pressure. Aides say his bill already has something for companies. He is offering big business a permanent extension of the temporary research-and-development credit. And he argues that the cut in the top tax rate for individuals and his proposed repeal of the estate tax will help the small businessmen, who are his principal concern.

As for the rest, Mr. Bush's economic adviser Lawrence Lindsey says: "The president is willing to take the heat for resisting special-interest pressure. He resisted it during the campaign, and I believe he'll resist it as well as the legislation is put together."

Mr. Bush will also have to consider that many of those business interests lobbying for big tax breaks underwrote his campaign, as well as campaigns in the Congress he pledges to work with. Each of the Big Five accounting firms -- the primary tax lobbyists in Washington -- was among his top 20 corporate donors. Real-estate interests gave \$4.2 million to the Bush campaign, and a further \$4.3 million to members of the House Ways and Means and Senate Finance committees during the past election cycle, according to the Center for Responsive Politics. In the past few weeks, the National Realty Committee has made the rounds of those two committees with struggling office-building owners from the politicians' own districts to make the case for faster property depreciation.

Insurance companies and executives also poured \$1.6 million into the Bush campaign, and \$5.7 million in contributions to Ways and Means and Finance. Last week, a Republican and a Democratic member of Ways and Means jointly signed a letter to colleagues pressing a \$645 million provision that would help life insurers compete better with other financial-services companies.

Besides, while Mr. Bush hasn't made business tax cuts a priority, he and his aides have hardly shown that they oppose the concept in principle. As governor of Texas, Mr. Bush backed breaks for the then-struggling oil and gas industry. His Treasury secretary, Paul O'Neill, used to sit on Mr. Bloomfield's and Mr. Walker's board, and he is an outspoken opponent of corporate taxes in general. The man tapped to be Mr. O'Neill's top tax aide, Mark Weinberger, has himself been a corporate tax lobbyist.

Next week's White House tax blueprint will only be the first step in what Mr. Bloomfield terms "a marathon -- that's the metaphor for the tax process this year."

Nobody knows how that process works better than Mr. Bloomfield. An avid long-distance runner, his fourth-floor office on K Street -- a street famous for the many lobbyists based there -- mixes pictures of him running real

marathons with mementos of his 25-year quest for lower business taxes as ACCF leader. Two letters from the new president's father, thanking Mr. Bloomfield for his efforts on taxes, adorn opposite sides of the room.

On a bookcase stands the thick black binder that Messrs. Bloomfield and Walker helped prepare in early 1981 as head of the group advising Mr. Reagan's transition team on taxes. "The question," he says pensively, sipping a Diet 7Up, "is whether this year follows that script."

To help make sure it does, Mr. Walker started sending feelers in December from his Georgia winter home to key tax lobbyists to plot strategy. "The minute the verdict was in, the phone calls started getting made," says chemical-industry lobbyist Fred Webber, referring to the Supreme Court decision sealing Mr. Bush's election victory. "Bush said in his campaign he was going to cut taxes and Charly wanted to see if there was interest in developing a common position that would appeal to most of the business community," adds Mr. Webber, president of the American Chemistry Council.

The guiding philosophy of that effort is that big business has to unify around one or two big cuts to get the largest possible share. One goal that the trade groups are discussing is a reduction in the current corporate income-tax rate of 35%.

But unity among disparate corporate interests is so far proving harder than business leaders would like. The National Association of Manufacturers, too, would like to come up with a consensus tax package among nearly two dozen business organizations. But its two lengthy meetings on the subject last month -- one lasting nearly three hours -- ended up producing only a laundry list of conflicting desires by different industries. Companies facing lousy earnings years, for example, might have less interest in corporate income-tax reduction than a break from the alternative minimum tax, which can force firms to pay high taxes even during down years.

Veteran tax lobbyist Ernest Christian, who allied with Messrs. Bloomfield and Walker on the 1981 tax act, is going his own way this year with a high-tech break aimed mainly at manufacturers.

In numerous meetings recently in the marble-columned dining room of the Metropolitan Club near the White House, he has been hammering together a powerful coalition of computer giants and heavy-industry types to further speed up the depreciation system he promoted successfully 20 years ago -- at a cost of \$300 billion during the next decade. Updating his pitch for the 21st century, Mr. Christian says this change is essential to maintain the high-tech investment that has helped propel the New Economy. It would allow businesses to deduct the full cost of high-tech equipment -- generally anything with a computer chip in it -- in the first year, instead of doling out the deduction over a period of years under the current system.

Mr. Christian says the current system breeds confusion and penalizes companies that have to replace high-tech equipment frequently. The changes would simplify the system somewhat and encourage businesses to invest more in equipment that helps boost productivity, Mr. Christian believes.

"I wrote the existing depreciation laws, and they're bad," Mr. Christian says. "This is the turn of the century. Let's do something sensible and modern."

Meanwhile, there is what many lobbyists call "pent-up demand" from companies and industries that succeeded in pushing at least partway through Congress specific breaks over the past two years -- only to have the bills die when it became clear that the Clinton White House wouldn't back them.

Chief among those is a proposal costing as much as \$400 billion that would expand tax-advantaged individual retirement accounts and 401(k) plans by inducing more employers to offer them, and by lifting contribution limits. "That's our one, blinding-sun issue," says Steve Bartlett, president of the Financial Services Roundtable, who blanketed Capitol Hill with letters two weeks ago urging representatives to back the bill once again.

Tax lobbyist Ken Kies of PricewaterhouseCoopers -- a former staff chief of Congress's joint tax committee -- is working on behalf of <u>General Electric</u> Co., <u>Caterpillar</u> Inc. and other multinationals to revise the way their foreign

operations are taxed at a possible cost of \$30 billion. Mr. Kies contends the current U.S. laws in the area are helping drive relocations of U.S. headquarters overseas.

Some companies are even dissatisfied with Mr. Bush's main gesture to big business, the R&D extension, and are hoping to sweeten that provision as well. "The current structure of the credit means we just don't get very much," says Stephen Elkins, head of tax policy for the chemical companies' trade group. The problem, as he sees it, is that credit is given to companies who increase R&D -- mainly high-tech firms -- and doesn't help much for Old Economy concerns like his clients, whose research budgets stay relatively flat. "We're not objecting to a permanent credit, we just want one where we get some meaningful part of the benefits that are available."

Last year, the American Forest and Paper Association succeeded in inserting, in an unsuccessful bill to raise the minimum wage, a special break for forest owners that would allow them to write off all reforestation expenses in seven years, as opposed to the current timetable of 30 to 40 years. Former GOP Congressman Henson Moore, a Ways and Means veteran who heads the group, is torn on whether to push again this year. He was one of the first people Messrs. Bloomfield and Walker reached out to for their broad-based coalition.

"We're trying to avoid every industry running down there with tweaks and changes to the tax code. We have to try not to load up the bill like a Christmas tree or it will collapse," he says. On the other hand, he adds: "If we can't get broad agreement, we'll go our own way. That's what's going to happen with everybody."

#### Tax Cut Fever

National Journal

Tucked away in the dimly lit basement of the Commerce Department is one of Washington's sorriest tourist attractions, the National Aquarium, which doesn't come close to living up to the grandeur of its name. Most of the tanks are no larger than those in a junior high school science class, and the fish are junior-sized, too. In one of the larger exhibits, the alligators are so small that they would probably have trouble fighting off a good-sized house cat.

Standing by one tank on a recent Thursday, T.J. Stanek, an aquarium worker, was lecturing to a gaggle of bored-looking kids and parents. "These guys here can be found throughout South America's rivers," he said. "They play a very important role because they eat dead and diseased fish." Suspended motionless in the water, 15 or 20 large pale eyes accept this compliment without a blink. At the moment, they are surprisingly serene, these piranhas.

A few blocks away on that same Thursday, just before Inauguration Day, 50 of the most influential lobbyists in Washington were holding a bull session. The setting was a glass-walled conference room in the Pennsylvania Avenue offices of Cisco Systems, the company that makes Internet switches. The ostensible purpose was to hear a speech from Rick White, head of Technet, Silicon Valley's most powerful political group, but conversation drifted to the prospects for tax cuts for high-tech companies this year.

As several participants recalled, the mood was buoyant, and for good reason. Flush with their recent successes in Washington, high-tech leaders believe they will dominate the business agenda this year, as they have for the past few years. That includes driving the bus on tax cuts. "There was a lot of feeling that important things that we've been trying to do are going to get done this year," said Greg Garcia, vice president of government affairs for 3Com Corp. For Garcia, that includes a tax credit for communications infrastructure that would unleash investment in the kind of networking equipment that 3Com makes.

Other tech companies want to repeal the excise tax on phone calls. Many want to make permanent the deduction of expenses for research and development, but some would insist on extending that benefit to a larger universe of companies. Others want tax exemptions for income from stock options. Many computer and chip companies have their sights set on changing the tax code to allow businesses to depreciate computers faster because they become outdated so quickly. And multinationals want to lower taxes on foreign income.

In all, the wish list adds up to as much as \$850 billion over 10 years (most of it from the proposed depreciation changes), a figure that would amount to more than half of the \$1.6 trillion that President Bush has proposed,

virtually all for personal tax cuts. And that's just for the high-tech sector -- other industries have tax cut proposals that would cost many billions more.

So far, the White House has endorsed the \$17 billion R&D credit, but not one cent more for business. Even though major business groups are now calling for a third of the President's tax cut to be set aside for them, and even though congressional leaders are starting to talk about enlarging the bill for business, Bush spokesman Ari Fleischer is holding firm. Last week, he declined to open the door even a crack. "The plan that the President submits to Congress will be the plan on which he campaigned," Fleischer insisted.

In Cisco's office, though, there was a sense of a much grander potential. With the Congressional Budget Office now forecasting the 10-year surplus at \$5.6 trillion, and with the near certainty of a major tax bill moving this session, lobbyists for the high-tech sector believe that their time has come. "The one area where we haven't had any success is tax cuts," said one person at the meeting. "But there's going to be major legislation this year, and I think there will be room for those people who have a compelling argument."

Let's stipulate that everyone has a compelling argument. Repealing the phone tax? "It was enacted in 1897 to pay for the Spanish-American War," said David Bolger, a spokesman for the U.S. Telecom Association. "It is still on the books. Is there any reason we should still be paying this tax for a war we won a hundred years ago?" What about the R&D credit? Unless it is extended, "we are discouraging innovation, the very thing that has made the economy so successful," said Caroline Graves Hurley of AeA, the new abbreviated name for the American Electronics Association. Enacting the depreciation plan? "This is a productivity tax credit," said Jim Mack of the Association for Manufacturing Technology. "We're talking about equipment that is driving the productivity miracle."

Around the Cisco conference table, some of the more seasoned veterans of past tax bills tried to dampen the euphoria. "I said, Look, you guys have to understand that big tax bills are divisive,' " said AeA President Bill Archey, a former top lobbyist for the U.S. Chamber of Commerce. "This is the first time that high tech has been in this position, with a seat at the table. But it is going to be rough.... It is going to be divisive between industries, within industries, and within trade groups. Because there's not enough room for everybody to get what they want."

For example, high-tech companies will be at each other's throats over whether to insist on loosening the rules on who qualifies for the R&D credit, according to a memo that AeA circulated last week. And that's the one tax cut that everyone supports.

A lot of the warm feelings inside that glass conference room came from the unity that high-tech companies have been able to maintain as their influence has risen. "We don't want to lose that unity," said Archey. Similarly, the broader business federations, such as the U.S. chamber, are also trying to stay on the same page, promoting the "one-third for business" idea without getting specific about which cuts should take top priority.

Based on history, though, keeping the peace will be a tall order. Lobbyists may be friendly now, but "once they get going, they'll be like two dogs fighting over a bone," said former Ways and Means Committee Chairman Sam Gibbons, who served in the House during major tax bills in 1981, 1986, 1990, and 1993. "When it starts going, it is worse than the yellow fever we used to get down here in Florida."

Actually, it's more like gold fever. Stoked by the heaps of money projected to pile up in the federal Treasury over the next decade, expectations among business groups are escalating rapidly. "I think that you have a real danger of things getting out of control," said Rep. James P. Moran, D-Va. After three failed tax bills in the past four years, "there's a tremendous amount of pent-up demand, and then you throw in these huge budget numbers, and watch out," he said.

#### The Bidding Wars

Back at the Commerce Department, something has stirred up the piranhas. A few kids move closer. "Unfortunately, there's been a lot of misleading publicity," T.J. Stanek said. "Normally, they are no threat to large animals like humans."

The fish are now rapidly circling the tank, bumping into each other. "Unless they're hungry. Or if there's blood in the water."

The formerly placid fish tank is now a blur of motion. White chunks of smelt are being dumped in from above, but they don't fall very far. Two or three fish converge on each morsel. One makes off with it before it is ripped away by another fish, then another, then another. "In the middle of what we call the feeding frenzy," said Stanek, "they will cannibalize each other, but that's not too common. Unless they're hungry."

Since gathering that Thursday before the inauguration, the big group of high-tech lobbyists hasn't met again yet, but the scene over at the Commerce Department is repeated once a week, for a live audience. Every Thursday at 2 p.m., it is feeding time.

If the comparison implied here is unfair, it is more unfair to the piranhas -- they eat each other only by accident. When billions of dollars in tax cuts are up for grabs, the mayhem among Washington lobbyists is willful. "When all the throat-cutting starts within the business community, the bottom line is, who will get the pot of gold?" said Rhett B. Dawson, president of the Information Technology Industry Council. The danger, according to Dawson and others, is that the exuberance among business groups will raise demand so high for tax cuts that Congress and the Administration will be caught in a bidding war.

Normally, the price for political support for a bill is relatively fixed -- Sen. Pothole offers to support the tax omnibus in return for a tax credit for the pothole-filling industry. In a bidding war, when a dozen industries from Sen. Pothole's state are demanding a tax cut -- all offering to switch their allegiance to some other Senator who can deliver the goods -- the price for supporting the omnibus can rise from week to week. And each time the price goes higher, chances increase that the bill will blow apart, or that some less-influential industry will be left out in the cold. "It's chaos," said Rep. Robert T. Matsui, a senior Democrat on the tax-writing Ways and Means Committee. "No one wants to be the last one in the door."

Some lobbyists caution that the Bush Administration must guard against letting business taxes play too big a role in this year's legislating process, or the tax cut package might lose its more populist appeal. "The optics of the legislation could change markedly, in the event that what starts out as an individual tax relief bill begins to turn into a business tax relief bill," said Lawrence F. O'Brien III of the OBC Group, a lobbying firm. "You'd have a very different political exercise on your hands in selling that to the voters." In the currently tight-lipped White House, planning for the tax cut campaign is the No. 1 priority, and the No. 1 secret. Administration allies, though, don't sound worried. "First of all, I don't think there's going to be a bidding war," said Rep. Rob Portman, R-Ohio. Portman, it should be noted, expects to pass his own \$55 billion bill to expand IRAs and 401(k) plans, a goal of several Wall Street giants. "Beyond that, I think the President knows that business will be a part of this process, but that he's the one who got elected campaigning to cut personal tax rates."

Lobbyists who have been pushing for aspects of the Bush plan, though, are worried. "I think one of the big concerns for all those who have pushed for estate tax and 'marriage penalty' relief is that now we're going to have a lot of competing interests coming forward," said John J. Motley III, the top lobbyist for the Food Marketing Institute, which represents grocery chains.

Business lobbyists are working in advance to try to head off any cannibalism. Several of the most powerful business groups in Washington have been quietly meeting for weeks to try to create a huge tax cut coalition around the goal of securing a third, or perhaps as much as 40 percent, of this year's tax cut, for business. A handful of big players, including W. Henson Moore, president of the American Forest and Paper Association, and Mark Bloomfield, president of the American Council for Capital Formation, are organizing the group, and it is expected to endorse a list of top priorities, or possibly an across-the-board cut in corporate income taxes. "We think the only way to get results is to have a coalition of heavy manufacturing, retail, banking, high-tech, and other corporate interests," said Moore, a former House member from Louisiana who served on the Ways and Means Committee. Otherwise, he warns, "you'll have a cacophony of ideas being deluged on the Ways and Means Committee that will overwhelm them."

The pressure for such a coalition is a byproduct of the fact that the permanent business federations have a hard time agreeing on a set of priorities because of their disparate memberships. U.S. Chamber of Commerce President Tom Donohue won't be pinned down on what will be at the top of his list for business cuts. "We have to respond to the fact that the 950 associations that make up our membership all have their own lists. If I was still president of [the American Trucking Associations], I'd love to see a cut in the excise tax for trucks and trailers. But now I've got a lot more interests to listen to."

Bloomfield plans to unveil his coalition within a few weeks, and many people are hopeful that this and other such peacemaking efforts by business will avert chaos. "I think the business community will get organized and make their demands, and that at the end of the day, they'll be part of whatever deal is reached," Matsui said. "This time, I don't think there will be a bidding war."

#### The Precedents

The classic case of tax cut fever occurred in 1981, when another Western governor rode into town as a newly inaugurated President promising to cut personal income taxes, and ended up with far more than he originally hoped for. Many former Reagan Administration officials have since owned up to the mistakes of that year's bidding war, which doubled the eventual cost of the tax cuts. But no mea culpa was as anguished as David Stockman's. President Reagan's budget director is mostly remembered as a supply-side idealist who compromised his principles by endorsing massive spending increases, but he was just as heartsick over his acquiescence to business tax cuts that he believed did nothing for the economy. As he wrote in *The Triumph of Politics: Why the Reagan Revolution Failed*,

"When it came to taxes, the GOP's idea of tax reform consisted of opening up loopholes in the IRS code. They preferred to pump up the welfare state from its back end by means of tax subsidies rather than direct expenditures." Inside the bidding war, it was easy to be carried along. "Once the war started, we became ensnared in its logic. If it was logic, it was the logic of the alcoholic: One more couldn't hurt, given all that had gone down already." Rudolph G. Penner, then an economist at the American Enterprise Institute, remembers giving a speech in France that summer. "I had submitted the text in advance, saying that Reagan would have to choose between personal cuts and business cuts, but by the time I got to Paris, I was embarrassed to admit he had chosen both," said Penner, who would go on to head the Congressional Budget Office.

At the center of the 1981 bidding war were a man and an issue that are again today at the center of this year's campaign by business for a slice of the Bush tax cut. Ernie Christian is now out on his own, but he was a lawyer-lobbyist at Patton Boggs for 20 years, with stints inside the Treasury Department in the Ford and Carter Administrations. Working on the Reagan transition, and on behalf of businesses, Christian took up the cause of what came to be called 10-5-3 -- an overhaul of depreciation rules that would allow business to write off expensive capital purchases much more quickly on a ten-, five- and three-year basis. As Stockman notes, the depreciation bill alone ended up costing 40 percent as much as all the personal tax cuts of the Reagan revolution. More important, 10-5-3 opened the floodgates for a torrent of other demands that became the bidding war. Capital gains and estate taxes -- both features of this year's debate -- were part of that year's also. By 1987, the business tax cuts passed in 1981 were costing the federal government more revenue than the personal income tax cuts, and together, the drain on the budget reached 5.5 percent of the entire U.S. gross domestic product. "That was what drove the deficit through the roof, those business tax cuts," said Dan Rostenkowski, chairman of the Ways and Means Committee that year. "I do regret I didn't do more to stop that, or at least see it coming."

Rep. Moran and other Democrats say that large business tax cuts and Bush's \$1.6 trillion personal tax cut will again bust the budget. "These 10-year projections of revenue are unreliable, and they are based on a strong economy, and we know that the economy isn't strong," Moran said.

Today, even Ernie Christian, who is part of the budding mega-coalition of businesses, expresses some regret about the 1981 bidding war, although not about his depreciation bill, which he said stimulated tremendous investment in the productive side of the economy. But speaking of the Reagan tax cutters, he conceded: "Were we arrogant? Sure we were. It was hubris, pure and simple. It got out of hand and led to a deficit of enormous proportions."

This year, Christian is back, and so is depreciation reform. Now the goal is effectively to eliminate multiyear depreciation for certain "productivity-raising" goods, mostly high-tech equipment but also old-fashioned capital goods such as machine tools. Business, instead of writing off the costs of such goods over the equipment's lifetime, could write these costs off in one year. And the price tag is again eye-popping. Christian estimates the cost at \$250 billion to \$325 billion over 10 years, although other groups pushing the proposal say the price could be as high as \$800 billion.

Talk to Christian, or anyone else involved in the competition for tax cuts, and you get a sense of the mental process that leads normally modest and cooperative people into piranhalike behavior. After Christian has made his case for the merits of the depreciation plan ("Please call it 'enhanced cost recovery," he says), he has a lot of good things to say, at first, about the rest of the business community's agenda. "I think the logic behind expanded retirement savings accounts is sound. We want to promote savings. And it is probably fair to be thinking about dealing with the alternative minimum tax," which can unpredictably bump successful businesses into a higher tax bracket.

But is there enough money for all these things, including the \$300 billion or more needed for "enhanced cost recovery"? Christian responds: "Look, you're right that every Tom, Dick, and Harry has a bill. There's a lot of miscellaneous proposals that will be competing with our plan. My view is that if there is a tax cut for business, it is going to be a large, important one that captures the imagination of Congress. It is going to be one with grandeur." Grandeur. Uh-huh. What about a broad corporate rate cut, which is more equitably spread to all larger businesses paying taxes? Arguably, that's even grander. "I don't think there's going to be the political support for it," Christian said.

And the R&D credit, one of the few proposals that even the Chamber of Commerce and the National Association of Manufacturers can agree on? "My question is, what does it do for America?" said Christian. "We've got more R&D than business can absorb. We need to utilize the R&D we've already done and make it more productive." With enhanced cost recovery, of course.

Even those people most critical of allowing business into this year's tax game succumb to the pressures of the competition. Moran, a moderate Democrat who has been one of the strongest supporters of reserving most of the surplus for debt reduction, says that it will be hard to satisfy business. "Tax cuts have an adhesive quality. When there's one, they attract more. I think we're crazy to be talking about these kinds of cuts when we don't really know what's going to happen to the economy."

A moment later, though, Moran is pitching for a restoration of tax exemptions for business lunches, a favorite cause of the lawyers and lobbyists who live in his Northern Virginia district. "I'd love to see this corrected; it is very important, and I think there's enough in the budget to do it. Do I see the contradiction there? Sure I do. It is very hard to avoid those kinds of choices. And that's exactly why it is going to be so hard to avoid a bidding war."

#### Different Times

Those who were involved in the bidding war of 1981 say that history doesn't have to repeat itself. "That was a very different time," said Donohue of the U.S. chamber. "The country was in deep trouble -- everybody knew it. There was a real consensus behind the idea of cutting taxes, even among a lot of Democrats. There is no emergency today," and "people are much more sensitive about deficits, because back then we hadn't gone through the experience of the runaway deficits" of the 1980s. Bill Frenzel, who was a senior Ways and Means Committee member in 1981 and is now a scholar at the Brookings Institution, says that "support for tax cuts this year is there, but not as strong. Back then, Reagan really had the country behind him."

Stockman, however, remembers things differently. By late March 1981, Reagan's tax cuts for individuals were in deep trouble. Conservative "Boll Weevil" Democrats were insisting on business tax cuts instead, and many Republican lawmakers were on their side. Notwithstanding the surge of popularity that Reagan got from his fast recovery from an assassination attempt, the die was cast early that spring for what would have to be done. "An actual majority ... had to be cobbled out of a patchwork of raw, parochial deals that set off a billiard game of counter-reactions and corresponding demands," Stockman wrote in *The Triumph of Politics*. "The last 10 percent or 20 percent of the votes needed for a majority would have to be bought, period."

Henson Moore concedes that holding together his big coalition will be tough, and that it is very rare for business to be united for a giant tax bill. In fact, the last time he recalled that happening was in 1981, when Ernie Christian mobilized a giant group of companies around his 10-5-3 proposal. Moore said that the key back then was putting together a broad enough plan to affect a wide swath of different industries. This approach, he said, is imperative if his new supercoalition is to succeed, and this is why the group might move toward a straightforward cut in corporate tax rates. "Normally, everybody goes their own way," he sighed. "If business is going to get any results, then they better get together."

Although "enhanced cost recovery" is built on a one-year depreciation of high-tech goods, Christian said politics required that he expand the proposal by speeding up depreciation for all the other different classes of goods now written off in 15, 10, five, and three years. "We move all of them up a notch."

Many of the tax cuts pushed by industry this year have been kicking around for years. "It's kind of like back to the future," said Mark Weinberger, a partner at Washington Counsel Ernst & Young. "There are a lot of things left over" from the failed tax bill of the 2000 lame-duck session of Congress, and from the \$792 billion tax bill that President Clinton vetoed in 1999. In addition to the R&D credit, Weinberger cited enhanced and expanded IRAs and 401(k) plans, and something that lobbyists call "Sub-part F" -- shorthand for changes to that section of the tax code that would extend an exemption to financial service companies to have their overseas earnings treated the same way as earnings from foreign manufacturing.

John Merrigan, a partner at the lobbying firm Verner Liipfert, agrees that the inability to pass tax bills in recent years will shape this year's debate. "There's a lot of pent-up demand for consideration of provisions that have been pending," he said.

Even tax cut proposals that were unpopular recently are getting new life. In mid-January, Senate Majority Leader Trent Lott, R-Miss., abruptly raised the issue of lowering corporate capital gains taxes, which remain higher than the capital gains rate for individuals. "I think there will be a big push on corporate capital gains," said Tim Hammonds, president of the Food Marketing Institute. "Within this Administration and on Capitol Hill, it's become legitimate to talk about the tax issue again."

After passage of the bloated tax cut plan in 1981, Stockman blamed Treasury Secretary Donald Regan for not trying to control business' expectations. (Regan's version, naturally, puts the blame on the budget director and others.) But Stockman admits to a crucial failing among the idealistic conservatives in the White House, starting with the President himself: They all ignored the sordid reality of Capitol Hill deal-making. As the list of favored tax cuts lengthened, "I started to get a daily lesson on the fundamental defect of our blueprint for the Reagan revolution. That is to say, it had no room for politics."

This time around, few suggest that the tax cutters in the White House intend to ignore the primacy of politics. Until now, Bush has strictly forbidden talk of business tax cuts, but probably more as a question of strategy than of principle. Moran thinks the best way to derail Bush's tax plan would be to encourage a bidding war that turns the bill into an embarrassing payoff for special interests. But one Republican says the Bush White House is aware of the danger of loading up the tax bill with special-interest provisions. This threat, in fact, may be the reason behind Bush's reluctance to state his priorities for business cuts. "The bigger it gets, the easier it gets to say no to everyone," the Republican observed.

In September, Bush economic adviser Larry Lindsey said that business tax cuts were not part of the Bush plan, because "that's not the governor's top priority.... If someone wants to propose them next year, then we'll be ready to listen."

Well, Mr. Lindsey, there're a few people here to see you. Quite a few. And they look hungry.

## **Corporate America Rethinks Opposition To Linking Trade, Labor, Environment**

Wall Street Journal

WASHINGTON -- Guess who is suddenly pushing a labor-rights agenda? After eight years of blocking moves by the Clinton administration that would link trade and labor, Corporate America is apparently having a change of heart.

For the past three weeks, lobbyists from several corporations, including Caterpillar Inc. and Boeing Co., have been meeting in Washington to plot a new strategy.

To get Democrats in Congress to stop holding up free-trade deals, Big Business will abandon its long-held opposition to linking free trade with labor and environmental standards.

While company chieftains are still quarreling about exactly how far to go, one thing is clear: "There's a recognition that work needs to be done on labor," says Cal Cohen, head of the Emergency Committee for American Trade, which represents big exporters.

Adds Peter Scher, the former deputy U.S. trade representative under President Clinton who now represents several big companies: "It's clear that there is little hope for enacting any new trade deals without addressing labor and environment, and business knows this."

Indeed, in a Jan. 3 letter to Charlene Barshefsky, then-U.S. trade representative, Caterpillar Chief Executive Glen Barton actually argued that labor and environment standards "should be discussed as part of future multilateral talks."

He goes even further to suggest that U.S. officials should consult with the free-trade foes who caused such a ruckus at the disastrous 1999 World Trade Organization meeting in Seattle.

"Caterpillar also is concerned that U.S. negotiators have not yet fully vetted the possible trade linkage with labor and environmental issues with Congress, the business community and some members of the non-governmental organizations," Mr. Barton wrote.

#### **Expired Authority**

This isn't how Big Business used to talk. Indeed, many of these new converts are the same people that lobbied so furiously against President Clinton's attempts to link trade and labor in the bloody 1997 fast-track fight. ("Fast-track" negotiating authority refers to allowing the U.S. president to negotiate trade deals with other countries that Congress can approve or reject, but not amend).

President Clinton's fast-track authority expired after the 1994 trade pact that begat the WTO. He never got it back. In 1997, he was forced to withdraw a fast-track proposal when Republicans in Congress, backed by their business allies, balked at Democratic demands that fast-track should include labor and environment standards.

Free trade, business lobbyists have argued, helps the economy grow and shouldn't be caught up in social agendas. Since the fast-track authority expired, the U.S. has entered into few trade agreements, because other countries don't want to negotiate deals with the U.S. that Congress could later amend. For Corporate America, this has meant watching from the sidelines while competitors in the European Union woo Latin American countries with free-trade deals

Big business wants to make sure President Bush has at least the prospect of fast-track authority when he attends the coming April summit in Quebec City on a Western hemispheric free-trade pact.

"The EU is poaching on our turf in Latin America," complains Johanna Schneider, spokeswoman with the Business Roundtable, which represents about 180 big companies. "Our CEOs are concerned that we're falling behind." So to fix that, those CEOs are abandoning their no-labor-link-to-trade stance. Next week, Business Roundtable chieftains, including Phil Condit of Boeing, Maurice "Hank" Greenberg of American International Group Inc., and D. Howard Pierce of the U.S. arm of Swiss technology giant ABB Asea Brown Boveri Ltd., will meet in Washington to decide whether to endorse a U.S.-Jordan free-trade agreement reached late last year. The limited Jordan pact includes a stipulation that Jordan must enforce its own labor laws or face trade sanctions -- just the sort of linkage between trade and labor that business has been decrying for years.

#### **Bickering Over Pact**

Business lobbyists say there is a strong chance the Business Roundtable will endorse the pact, which has already received a seal of approval from Caterpillar. Still, there is bickering within the business community that the Jordan pact goes too far. Frank Vargo, international vice president with the National Association of Manufacturers, says: "The labor stuff in the Jordan agreement is problematic for a couple of reasons, the chief one being that it's actionable. If they don't comply, it could go to trade sanctions."

Mr. Vargo says he would rather see a mushier trade-labor link without the enforceable trade sanctions. He is backed by the U.S. Chamber of Commerce.

But anything too mushy won't pass muster in Congress, where Democrats with strong political ties to U.S. labor unions are loath to infuriate that core constituency. Indeed, U.S. unions say the Jordan agreement is too weak. In a letter to Congress last week, Teamsters President James P. Hoffa said he "vehemently" opposes using the Jordan agreement as a model for future trade pacts.

It remains unclear how the new Bush administration, and U.S. Trade Representative-designate Robert Zoellick, a classic free-trader, will handle the labor-trade link. At his confirmation hearing Tuesday, Mr. Zoellick tiptoed around the issue, expressing concern about some aspects of the Jordan deal, but adding that "to be successful with the trade agenda, we'll have to get the broadest possible support."

Translation: With an almost evenly divided Congress, it may well be a Republican administration and its business allies that end up putting labor deals in trade pacts. Says Max Baucus, the ranking Democrat on the Senate Finance Committee: "There are lots of ways to skin a cat around here, but certainly, labor and environment have to be considered in the context of free trade these days."

The manufacturing association's Mr. Vargo has his own metaphor. "Nobody wants to sit around for the next four years and just be in duck soup," he says. "We've got to get moving on this stuff."

#### No Labor, No Trade

A few of the trade pacts -- many of them related -- that have been stalled because of squabbling over labor issues.

- "Fast Track" (1994, 1995, 1997)
  - Presidential authority to negotiate trade deals on "fast-track" basis, which means Congress can approve or reject, but not amend. President Clinton's attempts to get his fast-track authority renewed all failed because of fights over labor-related side agreements.
- Free Trade Area of the Americas (1994)
  - Leaders from 34 countries in North and South America agreed to launch a single free trade area from Alaska to Tierra del Fuego, but the FTAA has gone nowhere because of the same problem -- lack of an agreement on fast-track to allow the U.S. president to negotiate freely.
- Expansion of Nafta to include Chile (1994)
  - At a summit in Miami, Canadian Prime Minister Jean Chretien, flanked by his U.S. and Mexican counterparts, announced that "We are no longer the three amigos. Now we're the four amigos." But Chile still isn't in Nafta, because there's no fast-track.
- World Trade Organziation, Seattle Round (1999)
  Attempts to launch a new round of trade talks in Seattle exploded amid rubber bullets, tear gas and

squabbling over whether to include labor standards such as a minimum wage in factories and the right of workers to unionize.

## Can Anyone Be a New Democrat?

American Prospect

"In less than a year," says Democratic Leadership Council President Al From, "the Senate New Democrat Coalition has quickly become the strongest and most unified Democratic group within the Senate." And he's not the only one saying so. Roll Call recently noted the DLC's "soaring stock." The Hill said politicians were "flocking to the Senate New Democrat Coalition." Not only have the New Democrats swelled in number, but most of the growth comes from newly elected members. In the current Congress, marquee New Dems like Evan Bayh, Joe Lieberman, and John Breaux will apparently play key roles in brokering deals with the Republican White House. And the outlook for a host of New Democrat policy initiatives—on education, entitlement reform, and prescription drugs—looks brighter than ever.

With a picture so rosy, it's easy to see why Al From is crowing. Until, of course, you realize that most of these New Democrats aren't really New Democrats at all, at least not ideologically. What at first glance looks like a shift to the political center may in fact be nothing more than a clever branding scheme.

Last year, the Democrats' centrist bloc lost Senate veterans Bob Kerrey, Pat Moynihan, and Chuck Robb. But not to worry, the DLCers explain, the Senate New Democrat Coalition has picked up an even larger crew of newcomers: Michigan's Debbie Stabenow, Florida's Bill Nelson, Missouri's Jean Carnahan, Washington's Maria Cantwell, and, of course, New York's Hillary Clinton. Hillary Clinton? That's the problem. The Senate New Democrats may have lots of new members, but they're not New Democrats in any meaningful sense. Take two of the DLC's cherished reforms--partial Social Security privatization and Medicare changes that allow a greater role for HMOs. Most of the incoming Senate "New Dems" oppose them. Last year, the Campaign for America's Future (CAF), a left-liberal interest group, pressed Democratic candidates to sign a pledge promising to oppose efforts to privatize Social Security or "voucherize" Medicare. It didn't take much pressing. Ostensible New Dems Clinton, Stabenow, Nelson, Carnahan, and Cantwell all signed. Stabenow is a perfect example of how loosely the New Dem label is being applied. To be sure, Stabenow caucused with New Democrats during her two terms in the House; she's supported NAFTA and welfare reform; and the AFL-CIO endorsed her primary opponent for governor in 1994. But Stabenow's voting record contradicts almost every other signature New Democrat position. She has pledged to oppose New Dem-style entitlement reform; she voted against extending fast-track trade negotiating authority in 1997; and she voted against permanent normal trading relations for China in 2000. She has even hedged on increasing the number of H-1B visas, which would allow more foreign nationals to work in the tech industry, a virtual DLC obsession.

New Dem activists say growth inevitably leads to some ideological dilution. Will Marshall, head of the DLC-affiliated Progressive Policy Institute, describes the New Democrat affiliation as less a matter of policy positions than political temperament. "It's a place where it's OK to take a fresh approach ... where you don't have to mindlessly intone the party's position," he says. "These members are signaling their policy independence." But the new New Dems didn't signal much independence in the last election. A couple of days before he died, Missouri Governor and Senate candidate Mel Carnahan said, "I will never vote to privatize Social Security, turn Medicare into a voucher system or raise the eligibility age, as my opponent [John Ashcroft] has done." In a July debate, Bill Nelson asked, "Should Social Security be recklessly endangered by privatizing part of it?" If, as CAF's pledge-drive organizer Roger Hickey says, "even a Debbie Stabenow and a Hillary Clinton find it useful to call themselves New Democrats," does the term really mean anything?

Politicians like Stabenow are following the path the Clinton administration blazed. Over eight years, the administration slew numerous liberal sacred cows--making it safe for Democrats to support welfare reform, the death penalty, and deficit reduction--while maintaining strong support from the party's traditional constituencies. As a result, it's now easy to be a New Democrat. So easy, in fact, that you can be an Old Democrat at the same time.

Where the party's liberal base has pretty much declared surrender--welfare, crime, fiscal discipline--the incoming senators are New Dems. But where being a New Dem is still controversial within the party--entitlement reform, racial preferences, school vouchers, trade--they jump ship.

You might think the folks at the DLC would be upset that Clinton diluted their New Democrat brand. But, as long as it hoodwinks Beltway types into thinking DLC politics is dominant, DLCers don't seem to mind. "They've become really fixated on the idea that every candidate has to run under the name," says one well-placed Democratic source. "Al From is obsessed with every candidate using the brand name."

So who gets to carry the New Democrat label? Most of the Senate's new New Dems ran on issues pretty similar to Al Gore's, whose defeat most DLCers chalk up to his hopelessly Old Dem agenda. So what makes Stabenow a New Dem and Gore an Old Dem? Easy: Gore lost.

## Issue Ad Spending Hit \$250 Million In Major Markets, a Study Finds

Associated Press

WASHINGTON -- Political parties and more than 70 special-interest groups spent nearly \$250 million on television ads in the nation's largest media markets during last year's general election, an independent analysis shows. More than 339,000 issue ads aired between March 7 and Election Day in the largest 75 markets, with the political parties accounting for more than 60% of the spending, according to a report released Thursday by the Annenberg Public Policy Center of the University of Pennsylvania.

"Over the last three election cycles, the number of groups sponsoring ads has exploded, and consumers often don't know who these groups are, who funds them, and whom they represent," the report concluded.

The major market ad tracking, which was done by Campaign Media Analysis Group, included ads meant to influence the presidential election, congressional races and legislative issues.

The Annenberg study also measured issue ad spending in a less scientific way, estimating total spending for 1999-2000 based on media reports as well as the ad tracking data. Using this method, the report estimated that parties and special-interest groups spent more than \$509 million on TV and radio ads during the two-year cycle.

That's a huge jump from 1996-97, when the center estimated such ad spending at \$135 million to \$150 million, and from 1998-99, when an estimated \$250 million to \$341 million was spent.

The ad tracking data, based on computer analysis of the commercials that actually aired, also found:

- The biggest spender, aside from the Democratic and Republican parties, was Citizens for Better Medicare, a group funded by the pharmaceutical industry. It accounted for \$25.4 million -- or 10% of the total.
- \$85 million was spent on health care issues.
- In the two months before Election Day, 94% of issue ads made the case for or against a candidate, although by law such ads are not supposed to be electioneering.
- Eleven groups, including the parties and Citizens for Better Medicare, accounted for 90% of the spending.

The other groups were the AFL-CIO, \$9.5 million; Planned Parenthood, \$5.9 million; Chamber of Commerce, \$5.5 million; Business Roundtable, \$5.4 million; League of Conservation Voters, \$5.2 million; Americans for Job Security, \$3.4 million; Emily's List, \$3.4 million; and the Coalition to Protect America's Healthcare, \$3 million.

## On the Editorial Pages on February 2, 2001

### Instead of a Tax Cut, Send Out Dividends

New York Times

Imagine arriving home at the end of the workday to find a \$500 check from the government waiting for you in the mail. Even better: Imagine a prosperity dividend, paid to every American man, woman, and child, thanks to a record budget surplus.

This may sound far-fetched, but it's a plausible way of applying an immediate stimulus to the economy while at the same time giving something back to taxpayers and their children, as President Bush wants to do.

The sudden slowdown in economic growth has rattled the financial markets and caused consumers and businesses to rein in spending. The Bush administration is right to look for a quick way to stimulate the economy and lessen the risk of a recession. Business and consumer debt levels are high relative to income, and the country has accumulated a large foreign debt. A recession, if it develops, could turn nasty. Preemptive action can make a difference.

But revising the tax code is the wrong way to go. A tax cut enacted this year won't have much effect until next. That's likely to be too late. Even Alan Greenspan, who supports a tax cut, pointed out in Congressional testimony, "Such tax initiatives . . . historically have proved difficult to implement in the time frame in which recessions have developed and ended."

The tax code is also too important to be tampered with in haste. The consequences of any changes will be felt for years.

Our current surplus is America's return on 10 years of good economic performance, to which all of us have contributed. The government should declare a dividend — a one-time payment that would give a quick lift to the economy, spur consumer spending and help fight off a potentially deep recession.

A dividend payment from the government to the people is not unprecedented. Alaska has a fund through which the state distributes the economic rewards of its ownership of land and mineral resources. In 2000, Alaska sent a check for nearly \$2,000 to every man, woman and child who was a permanent resident and had lived in the state for all of 1999.

But for this kind of stimulus to work, it should meet three criteria.

First, it should be large enough to matter in an economy as large as ours. A tax-free \$500 check to every permanent resident would transfer roughly \$140 billion from the government to the private sector — enough to make a difference.

Second, the stimulus should automatically end once the economy is back on track. The prosperity dividend meets this criterion because it is a one-time payment from the government to the people.

And third, the stimulus should be targeted to people who need it. The prosperity dividend would be distributed equally to everyone living permanently in the United States. But it would mean the most to low- and middle-income families with young children. (A married couple with two children would receive a total of \$2,000). These families would be likely to spend all or most of the dividend on goods and services. If they were in financial distress, they could use it to pay down credit card debts.

With a projected surplus of \$5.6 trillion over the next 10 years and the national debt already below 35 percent of our gross domestic product, we can afford to meet the needs of our communities and families. But neither increased

public spending nor tax cuts can be carried out quickly enough to prevent a recession. And either would have long-lasting effects that need careful consideration.

A prosperity dividend check to every person in America is a fair and efficient way to spend a part of the surplus that all Americans helped produce while stimulating the economy quickly without tying government's hands for the future.

### ... And Compassion for the Rich

By E. J. Dionne Jr. Washington Post

Does President Bush really want to wreck one of the genuine achievements of the last decade, an achievement for which his father no less than Bill Clinton deserves credit?

The achievement is the restoration of fiscal discipline to the federal government. It came at large political cost to both parties. The elder President Bush began the process of wiping out the deficit. He signed the 1990 budget deal that raised taxes and never recovered politically from failing to read his own lips. He got, at best, belated credit. Congressional Democrats raised taxes again in approving Clinton's 1993 budget. They lost control of both houses in the 1994 elections.

So why should Washington embark on what Sen. Kent Conrad, a fiscally responsible North Dakota Democrat, calls a "feeding frenzy"? The danger is that every tax cut idea that has sat safely in somebody's drawer for years will be pulled out and written into law. If the president and Congress go down this road, they will prove every nasty thing that anyone has ever said about the irresponsibility of politicians. Is this the best way to begin the Responsibility Era?

Ah, but don't we have huge surpluses? Yes, but whether they stay big is another question. The surplus projections are flawed. They assume an ability to restrain spending that even a Republican-led Congress has not demonstrated, and they are unrealistic about government growth.

The president's plan, as outlined during the campaign, calls for enacting tax-cut provisions that take effect far into this decade. At the very least, why not pass a bill that limits the extent to which we mortgage the future? Yes, but we may be facing a recession. Don't we need a fiscal stimulus? There is a case for a stimulus. But big tax cuts for the most affluent taxpayers aren't the best way to prime the economy in the short term. Tax cuts for the middle class and the poor would do the job. Those taxpayers would spend the money and get the economy moving.

The best estimates of Bush's plan show the top 5 percent of taxpayers getting about half of the tax cuts. The top one percent get more than a third. Okay, but don't the wealthy pay the most taxes? Well, yes. But they have also made the greatest gains in the past decade.

According to the latest Internal Revenue Service data, analyzed by the Center on Budget and Policy Priorities, the top one percent of tax filers saw **after tax** incomes increase by 24.1 percent between 1989 and 1997, the last year for which numbers are available. On average, their incomes went up from \$417,000 a year to \$518,000. They may not like paying those (elder) Bush and Clinton tax increases, but they sure like the economy that followed.

And this president's plan doesn't touch the tax that takes the most money out of the paychecks of most Americans, the payroll tax. If this tax cut is really about stimulating the economy, replacing the income tax reductions with a temporary cut in the Social Security tax, a k a FICA, could put a lot of money in the hands of the taxpayers who need it most, at a moment when they could use it.

Alternatively, the income tax cut could be limited to the bottom rate. Or, as my colleague David Broder recently suggested, Congress might consider a rebate to individual taxpayers each year, depending on how big the **real** surplus turned out to be.

It must be asked: Why is an administration that claims to feel so much compassion for the poor preparing to use so much of the surplus to shower money on the wealthiest Americans? This impending tax cut is class legislation.

And here is where Democrats must show some courage. They need to argue forcefully that a huge tax cut must be stopped not simply because it is fiscally irresponsible but also because there are better uses of the surplus. Bush proposes to postpone a broad prescription drug benefit under Medicare. But he wants the tax cut now. Why shouldn't it be the other way around? What is our national priority -- to cut taxes for Americans earning more than \$500,000 a year or to provide health insurance for Americans earning less than \$50,000 a year?

This tax debate will be a test for Democrats and moderate Republicans. If Democrats cave in or join the bidding war, they might consider finding themselves another country. They will give up their one reason for being: to fight -- at least once in a while -- for social justice. Moderate Republicans always claim to be fiscal conservatives with social consciences. If they just fall into line behind an oversized tax cut, they'll fail on both counts.

## Greenspan the Pitchman . . .

By Michael Kinsley Washington Post

For Alan Greenspan, if it's not one damned thing, it's another. The Federal Reserve chairman used to worry about large federal deficits. His hangdog mien was the very emblem of fiscal gloom. "I have testified previously that all else being equal a declining level of federal debt is desirable," he reminisced last week to the Senate Budget Committee. Actually, even Chairman Deadpan used to make the point more forcefully than that. So his dream came true. And now he worries about large government surpluses. With, if anything, even more emotional intensity than he brought to his crusade against deficits, he describes the looming surpluses as a "critical longer-term fiscal policy issue."

For George W. Bush, by contrast, the message of any development, bad or good, is: Let's party! During the campaign, he called for tax cuts on the grounds that prosperity was generating more tax revenue than the government deserved. Now that prosperity is in some doubt, Bush's recommendation is? Why, tax cuts, of course. Mad cow disease turns half the population into human sponges? Tax cuts. The second coming of Our Lord Jesus Christ? What better way to mark the occasion than by cutting taxes?

Bush and company give the unfortunate impression of glee at the thought of an economic downturn, as if it were a lucky break. It's like a child hoping to be sick so he can take that yummy medicine. They were thrilled, naturally, by Dr. Greenspan's prescription last week, which many handwriting experts are interpreting as an endorsement of taxcut therapy. Actually, Greenspan specifically rejected the use of tax cuts as a fiscal stimulus. As the chairman cried to the heavens: "Lately there has been much discussion of cutting taxes to confront the evident pronounced weakening in recent economic performance. Such tax initiatives, however, historically have proved difficult to implement in the time frame in which recessions have developed and ended." But he prescribed the same medicine for the disease we didn't know we had -- surplus sickness -- and who cares if the Viagra is supposed to be for your athlete's foot?

Of course another reason the Bushies have trouble suppressing the hope that we're in a recession is that they can blame it on their predecessors. They gave Bill Clinton no credit for the gusher of money that allows them to call for a tax cut, but they'll certainly try to make him responsible if the gusher dries up. Until a few months ago, it was pretty well settled, especially among Republicans, that Greenspan (and, ultimately, Milton Friedman) was right: Fiscal fiddling doesn't work. The fate of the economy, to the extent it can be affected by government, rests with the monetary authorities -- that is, with Alan Greenspan. Greenspan himself, and other sensible people, acknowledge that the taxing and spending branches can make his job easier or harder, which is why he endorsed, or pseudoendorsed, Clinton's deficit-reducing tax increase in 1993. (That, and his apparent policy about new presidents that every dog gets one free bite.) Partisan Republicans -- once they stopped predicting that the tax increase would lead to disaster -- took the more extreme monetary view that presidents are irrelevant to the general state of the economy.

All that is out the window now. In pushing his tax cut as a short-term fix for an economic slowdown, Bush stamps himself as a Keynesian of the most old-fashioned, micromanaging sort. If that's his conclusion after re-reading Keynes's "General Theory," so be it, and hats off to him, because it could be politically costly. Once you claim to be driving the car, you are responsible for where it goes.

The Democrats, meanwhile, have also undergone a weird transformation. They are now firmly the party of fiscal responsibility. They are obsessed with it almost beyond reason, calling for constant vigilance, finding cause to doubt cheery projections -- just like the Republicans of old. The role reversal that began in 1981 is now complete.

The fiscally responsible Democrats are more right than wrong here. It will be a great day when the national debt is eliminated. But there really is no good reason for a debt-free or near-debt-free government to collect taxes beyond its needs, just to let the money pile up. If one purpose of a tax cut is short-term stimulus, the tax to cut isn't the estate tax. No one wants to benefit from that in the short term. The tax to cut is FICA, the payroll tax for Social Security and Medicare. Unlike the income tax, which lower-income workers don't pay, and therefore get nothing if it is reduced, every working American pays FICA starting from dollar one. Taxpayers well into the middle class typically pay more FICA than they pay in ordinary income taxes. From a classic Keynesian point of view (if we're back to that) you would get more stimulus for the buck in lost revenue from cutting FICA, because low- and middle-income people are more likely to spend an extra dollar than folks who would get the most from a tax cut for capital gains.

A FICA tax cut would be no threat to future Social Security and Medicare payments. Everyone seems to agree (I don't know why, but they do) that while FICA revenues are a sacred trust that can't be "raided" for other government expenses, it's perfectly okay to use money raised for other expenses to cover the shortfalls in FICA. Cutting FICA instead of the income tax just means one more dollar available in the general surplus for every extra dollar FICA will need. This idea has everything going for it. Well, everything except a gnomic endorsement from the Fed chairman. Alan Greenspan may or may not be to economic policy what Tiger Woods is to golf. But, undeniably, Greenspan is to economic policy what Tiger Woods is to Wheaties. I wonder what he charges.